

## Message Text

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TAGS: ETRN, RP

SUBJECT: PRESIDENT MARCOS ORDERS CONSOLIDATION OF PHILIPPINE  
AIR CARRIERS

REF MANILA 2876

SUMMAR Y. MARCOS HAS ANNOUNCED DECISION TO  
CONSOLIDATE THREE PHILIPPINE CARRIERS INTO SINGLE  
AIRLINE EFFECTIVE APRIL 1. COMPANIES ARE TO WORK  
OUT DETAILED ARRANGEMENTS WITH GOP OFFICIALS,  
INCLUDING RESOLUTION OF SUCH MAJOR QUESTIONS AS ROLE  
OF GOVERNMENT AND PRIVATE STOCKHOLDERS IN OWNERSHIP  
OF MERGED AIRLINE AS WELL AS NEW MANAGEMENT, PERSONNEL AND  
FINANCING ARRANGMENTS. FULL IMPLEMENTATION OF  
MERGER BELIEVE LIKELY TAKE SIX MONTHS TO ONE YEAR.  
END SUMMARY.

1. AFTER INTENSIVE GOP STUDY CULMINATING SEVERAL YEARS'  
EFFORTS TO REACH SOUND ORGANIZATIONAL BASIS FOR PHILIPPINE  
AVIATION INDUSTRY, PRESIDENT MARCOS ANNOUNCED MARCH 14 THAT THREE  
COMPETING CARRIERS ( PAL, AIR MANILA AND FILIPINAS ORIENT  
WOULD BE CONSOLIDATED INTO ONE AIRLINE EFFECTIVE APRIL 1  
TO OPERATE BOTH DOMESTIC AND INTERNATIONAL SERVICES.  
GOVT ANNOUNCEMENTS HAVE REFERRED TO " MERGER" OF THREE  
AIRLINES, BUT DISCUSSIONS WITH BOTH GOP OFFICIALS AND  
AIRLINE SOURCES INDICATE THAT ONLY THE CONCEPT OF ONE  
AIRLINE HAS BEEN DECIDED, AND NO CONCRETE DECISIONS YET  
MADE ON LEGAL, FINANCIAL AND MANAGEMENT ARRANGEMENTS TO  
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BRING THIS ABOUT.

2. AVIATION SOURCES REPORT THAT MARCOS HAD EARLIER FAVORED TWO SEPARATE AIRLINES, ONE DOMESTIC AND ONE INTERNATIONAL CARRIER, BUT WAS CONVINCED BY DEFENSE SECRETARY ENRILE AND PRESIDENTIAL STAFF OFFICIALS THAT SINGLE AIRLINE WAS PREFERABLE. SOURCES ALSO REPORT THAT MEMBERS OF ACACIA SECURITIES GROUP WHICH MADE STRONG BID TO ACQUIRE OWNERSHIP OF PAL IN APRIL 1 972 (MANILA 3536 PARAS 5 AND 6) ARE AGAIN SEEKING GAIN CONTROL OF PHILIPPINE CARRIER. A DETAILED PLANNING SESSION WAS REPORTEDLY HELD AT PALACE MARCH 19 WITH PAL OWNER TODA, AIR MANILA PRESIDENT SILVERIO AND OTHERS TO DISCUSS CONSOLIDATION ISSUES.

3. ACCORDING TO GOP TRANSPORTATION SPECIALIST IN PRESIDENT'S OFFICE, BASIC QUESTIONS SUCH AS ROLE OF GOVERNMENT AND PRIVATE STOCKHOLDERS IN OWNERSHIP OF PROPOSED SINGLE AIRLINE, FINANCIAL ARRANGEMENTS AND STRUCTURE OF NEW MANAGEMENT ARE STILL TO BE RESOLVED. GOP ANNOUNCEMENT STATED THAT SPECIFIC QUESTIONS TO BE ADDRESSED INCLUDE ELIMINATION OF CAUSES OF SIPHONING OFF PROFITS AND FUNDS TO " SATELLITE CORPORATIONS" , EXPANSION OF SERVICES, AND " SECURITY ASPECTS", EXPLAINED AS CLOSER LIAISON BETWEEN THE PHILIPPINE AIR FORCE AND COMMERCIAL AVIATION INDUSTRY.

4. IN DISUCSSION WITH EMBOFF, SENIOR EXECUTIVE OF ONE PHIL CARRIER SAID PRESIDENT HIMSELF, PRESUMABLY WITH ADVICE OF GOVERNMENT EXPERTS, MAY ULTIMATELY HAVE TO DECIDE QUESTIONS ON WHICH AGREEMENT PROBABLY CANNOT BE REACHED BY PARTIES CONCERNED. EVEN GOP AGENCIES ARE DIVIDED ON APPROACH, E. G. , GSIS, OWNER OF 24 PERCENT OF PAL SHARES, OPPOSES STRAIGHT MERGER WHICH WOULD ADD DEBTS OF OTHER AIRLINES TO PAL'S BALANCE SHEET EVEN THOUGH THESE DEBTS ARE TO GOVERNMENT- OWNED PNB AND SUBSIDIARY NIDC. NIDC ALSO OWNS 17 PERCENT OF FILIPINAS STOCK. CREDITS EXTENDED BY PNB OR NIDC TO TWO SMALLER AIRLINES TOTAL 136.1 MILLION PESOS, WITH MST IN EFAULT; FILIPINAS 75.2 MILLION AND AIR MANILA 60.9 MILLION. PAL HAS GOVT ( DBP) GUARANTEES OF 76.5 MILLION AND OWNES PNB 14 MILLION.

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5. ROLE OF " SATELLITE CORPORATIONS" IS NOTEWORTHY IN CASE OF PAL WHOSE PRESIDENT AND BOARD CHAIRMAN TODA OWNS 74 PERCENT OF PAL STOCK THROUGH RUBICON HOLDING AND MANAGEMENT COMPAN. RUBICON AND OTHER COMPANIES TAKE PERCENTAGE OF GROSS REVENUE AND PERFORM ALL PURCHASING , INSURANCE AND SIMILAR SERVICES FOR PAL ON HIGHLY PROFITABLE TERMS. ACCORDING TO AUTHORITATIVE REPORT, GOP IS DETERMINED TO END THIS ARRANGEMENT.

6. OBSERVERS BELIEVE GOP CAN EXERCISE COMBINATION OF FINANCIAL PRESSURE AND MANAGEMENT AUTHORITY UNDER LETTER OF INSTRUCTION NO. 2 OF SEPT 22 , 1972 ( ORDERING SECRETARY OF NATIONAL DEFENSE TO TAKE OVER MANAGEMENT, CONTROL AND OPERATION OF THREE AIRLINES) TO CARRY THROUGH CONSOLIDATION PLAN, ALTHOUGH GOP UNDER PRESENT DECREES DOES NOT HAVE AUTHORITY TO TAKE OVER ASSETS. FURTHER DECREE POWERS MAY BE SOUGHT IF COMPANIES UNWILLING OR UNABLE TO AGREE ON A CONSOLIDATION PLAN.

7. ALTHOUGH INTENSIVE WORK IS BEING DONE IN EFFORT TO MEET APRIL 1 TARGET SET BY PRESIDENT, IT CNSIDERED LIKELY THAT ONLY INTERIM ARRANGEMENT CAN BE COMPLETED BY THAT TIME. LEGAL AND FINANCIAL ARRANGEMENTS FOR MERGER ARE LIKELY TO REQUIRE CONSIDERABLY LONGER-- SOME ESTIMATES UP TO ONE YEAR. NEVERTHELESS WE BELIEVE MAIN LINES OF NEW AIRLINE STRUCTURE SHOULD BE APPARENT WITHIN NEXT ONE OR TWO MONTHS.  
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